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SUBJECT: SWITZERLAND'S TOP BANKS FACE CONTINUING STRAIN

¶1. Switzerland's leading banks, UBS and CreditSuisse, reported record-breaking losses in the fourth quarter of 2008, highlighting the continuing financial strain on Switzerland's banking industry. UBS and CreditSuisse announced 2008 annual losses of 17.1 billion USD and 7.1 billion USD, respectively. Despite these massive losses, the banks maintain a positive outlook with an expectation of profits in 2009. However there is skepticism that UBS, facing client distrust and potential legal fines from the U.S., will pull so rapidly from the financial crisis. Public and media backlash against fat cat bonuses hit an all time high when UBS announced it would pay 2 billion in bonuses despite receiving state aid.

BANKS REPORT MAJOR LOSSES

¶2. Switzerland's leading banks reported worse-than-expected losses in the fourth quarter of 2008, highlighting the continuing financial strain on Switzerland's banking industry. UBS, Switzerland's largest bank and the world's leading wealth manager, announced a fourth quarter net loss of 8.1 billion Sfr (7 billion USD) totaling a 2008 annual loss of 19.7 billion Sfr (17.1 billion USD); the largest annual loss in the history of Swiss banking. CreditSuisse, Switzerland's second largest bank, trailed behind with 6.0 billion Sfr (5.2 billion USD) for the fourth quarter and full-year 2008 losses of 8.2 billion Sfr (7.1 billion USD).

¶3. UBS' financial woes are spreading from its investment banking division, once an isolated injury from toxic asset write-offs, to its wealth management division. UBS' need for government infused funding of 60 billion Sfr and the ongoing investigation by the U.S. over claims of aiding tax evasion have done little to build or maintain client trust with clients reportedly pulling 58.2 billion Sfr (50.6 billion USD) (about 2 percent of total assets) from UBS' wealth management division in the fourth quarter.

BANKS CAUTIOUS BUT UPBEAT ABOUT 2009

¶4. Despite massive losses, UBS reported an "encouraging start to the year" with net new money in January and pointed to a strong capital ratio for 2008 year-end of 11.5 percent and a total capital adequacy ratio of 15.5 percent (largely assisted by a government rescue package). UBS stated that its "near-term outlook remains cautious" and that it intends to further reduce its risk position, risk weighted assets and operating costs. UBS will continue to implement its new strategy of dividing wealth management into two new divisions and restructuring from an integrated approach to refocus on Swiss core businesses.

¶5. CreditSuisse reported on February 11 "a strong start to 2009 and was profitable across all division year to date." It reported "one of the strongest capital ratios in the industry" at 13.3 percent for year-end 2008. The overall risk in investment banking was reduced in 2008 leading to a "significantly lower risk profile." CreditSuisse CEO Brady Dougan expanded on the positive outlook by stating, "We have

positioned our businesses to be less susceptible to negative market trends if they persist in the coming months and to prosper when markets recover." CreditSuisse remains committed to an integrated business model, citing collaboration through its three businesses (investment banking, asset management, and private banking) as a source of stable, high-margin revenues.

PAYMENT OF BONUSES PROVOKES PUBLIC OUTCRY

¶6. Scathing press comments and public backlash followed UBS' announcement that it would pay out 2 billion Sfr (1.77 billion USD) in bonuses for 2008. The media quoted numerous politicians and pundits calling the bonuses inexplicable and incomprehensible when UBS reported huge 2008 losses and was rescued by state funds. Switzerland's financial regulator, FINMA, which approved the bonus payment, has also been questioned for its decision. UBS originally asked for 3 billion Sfr in bonuses, which was reduced by FINMA. The media and public openly dismissed the grounds given for defending the bonuses such as the fact that all UBS employees are not investment bankers; many had profitable portfolios; the banking compensation structure is based on bonus payments; and that bonuses are needed to retain employees.

¶7. CreditSuisse, which designed a creative bonus structure for 2008, was better received. The bank has issued a portion of its distressed assets as bonuses transferring the risk of further losses to the employees while reducing the bank's exposure. However, some critics argue that given CreditSuisse's losses no bonuses should be paid at all. Others argued that the converted assets should have been handed over at the original value, not marked down to 2008 year-end value.

COMMENT

¶8. Although both banks provide a positive outlook for 2009, there remains considerable uncertainty as to whether these expectations will prove accurate. UBS and CreditSuisse assured clientele throughout 2008 that conditions would improve, major write-offs were completed, and that further capital infusions would not be necessary. However, all of these assurances proved inaccurate.

CARTER